Impact of Globalisation on baijiu — China's spirits industry: A case study of the British Diego Plc takeover of Swellfun Company Ltd

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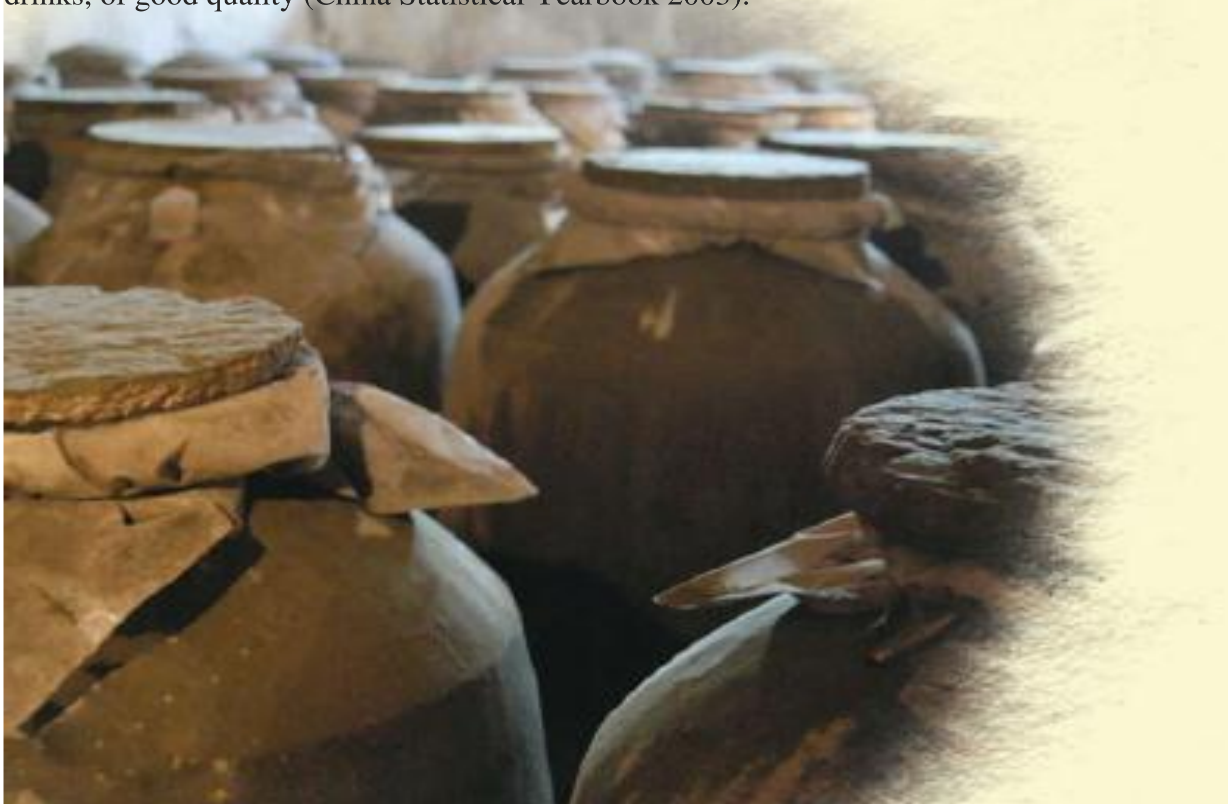
ABSTRACT

This paper examines the British takeover of the Chinese flag bearer of baijiu: Swellfun Co Ltd and the rationalisation of cross border entry mode. British distiller Diageo Plc shifts acquisition priority to the rapidly rising Asian markets, in order to compensate the decline in sales elsewhere. In 2010, Diego Plc made 32 percent of revenues from emerging economies. This forward push in Asia raised profits at 1.5 percent to value about £1.63b. On the other hand, revenues fell 3 percent in Europe, due the shrinking markets of Greece and Ireland.

Early into 2000, baijiu tariffs account 34.4 percent for wine in containers below two litres and 38 percent for bulk wine. Halfway into the 2000 decade, tariffs fell to 14 percent for baijiu in containers below two litres and 20 percent for bulk wine. By so, easing regulations, costs and import barriers, an increasing number of baijiu distributors and brands have entered the market, resulting tougher competition.

The Baijiu Case highlights the Chinese alcohol industry difficulty encountered as China liberalises trade policy. Given the cultural challenges with her traditional protectionist stance, the British takeover of the Swellfun Ltd Co and cross border market penetration was carried out.

The case renders interesting insight on the changing economic program of China to keep control of country economy and political stability. Fundamentally, the PRC acts to ensure home grown industries get the most out of the market and continue to generate profits amidst free trade schemes. As it is, Chinese consumers have a broadened selection of competitively priced alcohol drinks, of good quality (China Statistical Yearbook 2003).



INTRODUCTION

When expanding across borders firms select a suitable entry mode to outweigh the potential market risk. Expansion strategies differ between product export modes into investment entry modes; and decisions depend crucially on the characteristics of the target market and predisposed company risk appetite. In the sternest sense of Globalisation, thought as free trade, any firm can expect to face complexities in the political and economic environment of the region, confront cultural issues, legislation and taxation headaches, and foreign policy inconsistencies.

Cross border Mergers and Acquisitions, CBM&A, is an option to market entry across borders, which compels steady involvement and substantial capitalisation. Mergers and Acquisitions gained popularity, escalating in value from USD200b to USD1637b between 1990 and 2007 (Sudarsanam, 2010).

As a result, M&A have positive wealth effects on the local economy (Andrade et al 2001, Mulherin & Boone 2000, Franks et al 1991 and Walker 2000). Reports on positive wealth are found in the work of Asquith et al (1983), Loderer and Martin (1990), Schlingemann (2004), Moeller & Schlingemann (2005) and Antoniou et al (2007). More studies focused on Mergers and Acquisitions in the US and UK.

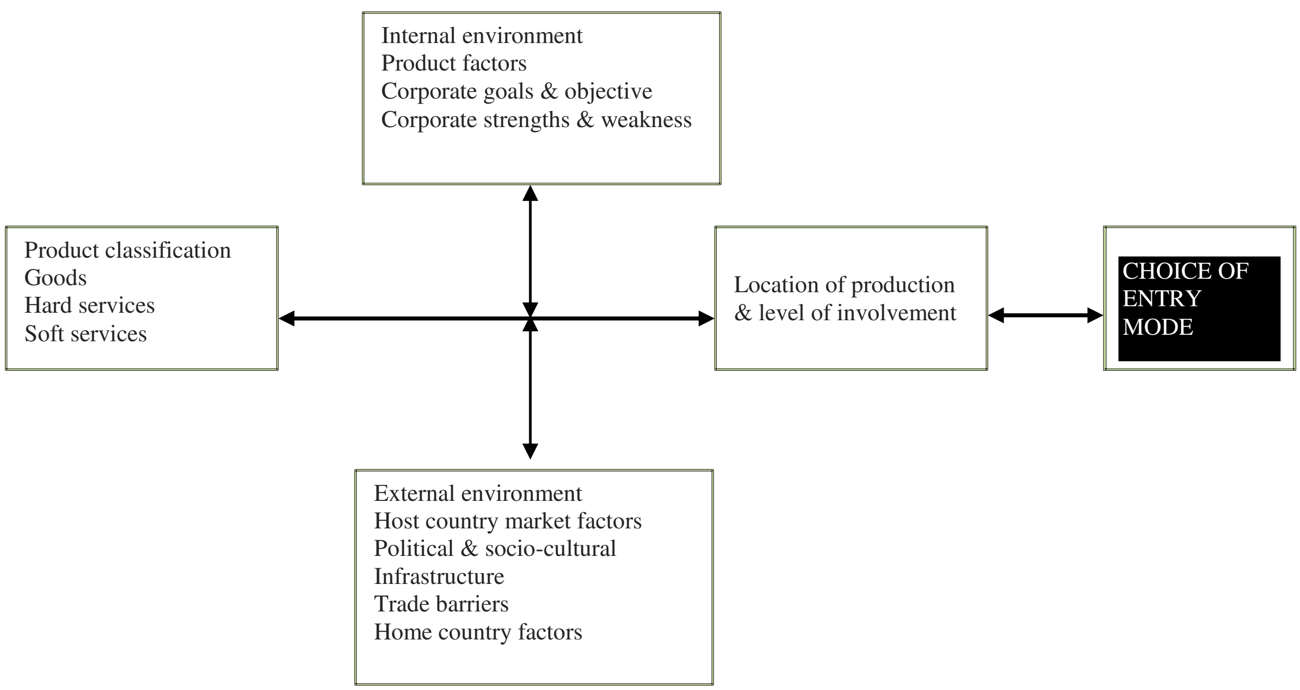


Figure 1 Foreign market entry mode strategies for service firms (Ekeledo & Sivakumar, 1998)

Entry into a foreign market by a multinational enterprise entails the crucial choice between two distinct but correlated dimensions: the non-equity mode and the equity mode. A non-equity mode could take form in exports through market agents or licensed suppliers. An equity mode can be through a partially or wholly owned local enterprise which can be established through the acquisition of an existing local firm or joint venture or through green ventures such as a new manufacturing facility for effective control and management (Agarwal & Ramaswami 1992, Morschett et al 2010). Foreign market entry modes that evidence effective management and control are either wholly owned subsidiaries WOS, equity joint ventures JVs, acquisitions and capital participation (Delios & Beamish 2001, Makino, 1994, Woodcock et al 2002).

Entering overseas markets also entail quite complex variables that can be correlated to product properties, material resources protection, cost reduction or market expansion. Nonetheless, this is carried out to further exploit special assets such as patents, trademark or know-how, or to maintain market shares otherwise to avoid risks (Wu 1994). Whereas entry of the business to international markets is described as business activities held in more than two countries, and referred as an international enterprise, transnational or Multinational Corporation. Internalisation is referred as the intake of foreign operations within the local firms across regions and into various geographic locations, in contrast to market transactions at arm's length (Hitt et al 1997).

Sichuan Swellfun Company Ltd

Sichuan Swellfun Company Ltd engages in the development and sale of distilled liquors and the tour culture products in China. Products include the Chinese white liquor, Scottish whisky, French brandy, and Russian vodka. Delivery packages are either Swellfun liquor package; drinking vessels, including stoup and handless cup, little pannikin, and goblet seat; and crystal bottled Swellfun. The company markets its products under the Swellfun brand. Sichuan Swellfun Co Ltd was founded in 2000 and is based in Chengdu, China. The company was incorporated in 1993, and has a talent base of 1.35 thousand employees. Revenue in current year TTM is US$1.32b with Net income of US$271.34m. Its official website if http://www.swellfun.com

Diageo plc was the first cross border entry to China in 1995 with its Johnnie Walker and J&B. Then it took up its first acquisition in 2006 for 43 percent stakes in the Sichuan Chengdu Quanxing Group Company. This was shortly followed with the acquisition of the Sichuan Swellfun Company Ltd, particularly popular for the traditional Chinese liquor or baijiu. Through the cross border merger & acquisition of Swellfun, Diageo Plc turns up as the second largest shareholder in Chengdu Quanxing (Fuhrman 2006). Table 9 states the industry competitors of Swellfun Company Ltd.

Baijiu

Baijiu is fine grain clear liquor, authentic for its alcoholic strength between 55 and 65 percent. Insofar that alcohol plays a significant role in Chinese civilization; baijiu stays popular as the traditional drink used in family celebrations, business functions and Chinese holidays such as the Spring Festival, or other passages of life (Goodman 2003).

The historical and traditional context of baijiu is for the continuation of culture particularly in ancestral ceremonies and sacrifices to the gods, banquet, military triumph, — or toss for the warriors to boost the spirit. Together with the ceremonial consumption of the baijiu drink evolved jiuling, which is a Chinese drinking game that would depend on the social status, literacy status and interests of the drinker.

Baijiu ferment is churned out of a broad selection of natural corn, sorghum beans, wheat, oak, rice, barley, or peas. Scholarly records list Yi Di and Du Kang as the founding fathers of the liquor industry, with great efforts to produce the finest mellow wine with fermented glutinous rice or sorghum seeds.

Literature Review

LITERATURE REVIEW

This literature review utilises the Yu Framework of Analysis for the systematic presentation of factors affecting the selection of entry mode as to: (1) Market scale and competition structure in the host country (2) Environmental variables characterised by cultural distance (3) Variables on production characterised by cost, quality, energy and infrastructure (4) Criticality of the investment environment.

Investment Environment

Recent movements in the international investment environment depict serious focus on Asia's tremendous growth (IBIS). Particularly for the liquor industry, more companies have shifted from the mature markets of Europe and US, to the emerging markets of Russia, China, Brazil, and India. In 2011 an overall cross border merger and acquisition into the region is valued at USD5.9b for spirits, indicating 143 percent increase over previous year (Financial Times 2000).

Table 2 shows the cash balances of the top 15 global spirits companies and Table 3 presents the quarterly industry deals.

Table 2 Total cash balances of top 15 global spirits companies (Winchester Research 2011)

Year	Total Cash($mm)	Growth Rate
2008	$4,873	+ 1.8%
2009	$6,916	+ 41.9%
2010	$7,870	+ 13.8%
2011	$12,192	+ 54.9%

Table 3 Quarterly Industry Deals

Quarter	Qty	Value	Notable Transactions
Q1 2010	41	584	Bemberg Invesora S.A. acquires Grupo Peñaflor S.A. from DLJ Merchant Banking Partners
Q2 2010	34	844	William Grant & Sons acquires Spirits and Liquors Division of C&C Group (nka:William Grant & Sons Irish Brands Ltd.)
Q3 2010	515	31	Gruppo Campari acquires Carolans, Frangelico and Irish Mist Bmes rands from William Grand & Sons Irish Brands Ltd.
Q4 2010	40	479	CHAMP Private Equity acquires of 80.1 percent stake in both Vincor UK & CBI Australia Constellation Brands
Q1 2011	49	2,780	Diageo plc acquires Mey Içki A.S. from Actera Group, TPG Capital and Mey Icki Management
Q2 2011	51	1,146	Europeenne de Participations Industrielles SAS acquires Piper Heidsieck C.C. from Remy Cointreau
Q3 2011	35	1,718	Asahi Holdings (Australia) Pty Ltd. acquires Flavoured Beverages from Pacific Equity and Unitas Capital Pte. Ltd.
Q4 2011	51	251	Beam Inc. acquires Cooley Distillery PLC from Cooley's existing shareholders and Cooley Mgmt

These acquisitions have contributed an annual growth of 38.3 percent from 2009. The international spirits volume is comprised of whiskey 31.2 percent, Vodka 21.7 percent, Rum 12.3 percent, Liqueur 12.2 percent, Asian White 8.0 percent, Gin 6.2 percent and Tequila 3.6 percent (IBIS). Liquor consumption is forecast to reach USD230.3b in value by 2014, or an increase of about 46.0 percent over 2005, and 9.5 percent over 2010. Approximately 39 percent of 2011 world consumption comes from the Asia Pacific region, and still expected to increase by another 3 percent in 2014. Trade is expected to fuel this growth market, especially where cross border merger and acquisition occur (Financial Times 2000).

The consolidation across the international liquor industry was a strategy towards improved margins and higher shareholder value that has revolutionised the industry landscape. Many private equity groups choose to sponsor management buyouts or capitalise on opportunities in the spirits industry.

Of the top 15 international spirits companies, cash and short term investments list about US$12.2b, indicating annual growth at 26.3 percent over 2007 and 54.9 percent increase over 2010. High liquidity is noted of the liquor industry, and subsequently a strong cash position which enables strategic acquisitions, or the introduction of brand portfolios to broaden company reach or gain footage into new markets (IBIS).

Diageo Plc completed the most number of acquisitions for the international spirits industry. The company is distinctly aggressive in emerging markets, such as the buyout of 30 percent of Hanoi Liquor and the acquisition of Mey Içki for USD2.1b. Diageo's acquisition of Sichuan Swellfun Company Ltd is the largest published deal valued at USD1.01b.

Predominantly in China, the consistent growth in disposable income, a high rate of urbanisation and rapid adaptation of western alcohol drink choices, have induced higher volumes and per capita liquor consumption. This growth engine is forecast to drive GDP growth onward with a forecast level in 2013, to add 20 million urban citizens across China (IBIS).

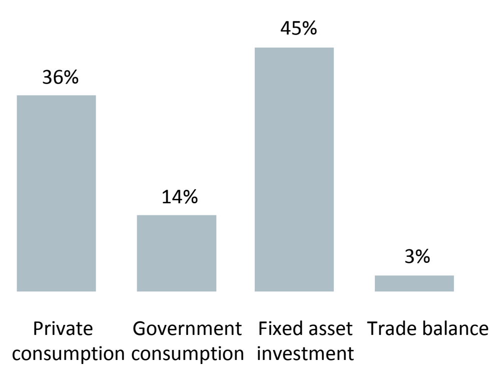


Figure 2 Components of GDP in 2012 (The Economist 2013)

China is characterised to have an investment environment that is slow but sure, with an average 9.9 percent GDP growth rate over ten years. The country ranks second place of all country economy and accounts for 34 percent of world GDP growth in 2013. World GDP shares consist of USA 19.1 percent, China 14.3 percent, Eurozone 14.2 percent, India 5.7 percent and Brazil 2.9 percent. Figure 8 states the GDP growth in China and Europe.

China's investment environment is characterised by an unbalanced industrial structure, resource and environmental constraints, large development gap between urban and rural areas, and income disparities. Some places have severe social problems, bureaucratic issues and corruption, and systemic barriers (PwC China 2012). Notable difficulties in cross border entry include investment approvals, partnering with local companies, technology transfer and IPR protection, human resources, access to finance, regulatory systems and the rising costs of doing business (China Forum Development 2013, World Bank 2013).

Market Scale and Structure in Host Country

Asia's beverage market growth is dominated by alcoholic drinks, showing consistent consumption patterns influenced by local tastes: Whisky in India which ranks largest, vodka in Vietnam which gobbles spirits growth, and the baijiu commanding market share in China (Fuhrman 2006). Table 4 states the beverage sales in 2006 for the entire China.

Table 4 China beverages sales US$ in million (Euromonitor International 2006)

	2006'	Forecast 2010
Alcohol drinks	54,924.0	72,797.3
Beer	23,022.2	29,222.7
Wine	9,037.6	12,401.1
Spirits	22,843.6	31,142.1
Soft drinks	6,338.2	33,044.8
Carbonates	6,071.0	6,746.1
Fruit/vegetable juice	6,450.4	8,992.0
Bottled water	4,124.9	5,823.0
Functional drinks	1,595.3	1,989.8
RTD tea	4,574.3	5,215.2
RTD coffee	30.1	38.7
Asian specialty drinks	4,831.7	5,816.9

The combined revenues on alcohol drinks in China for 2009 was about US$105b, indicating 8.1 percent growth from the previous year. Beer represents 40 percent of sales, wine 28 percent, and spirits 32 percent. Off-trade revenues of alcohol drinks are a bit more than trade revenues at USD53.4b. Off-trade channels accounted for 45 percent beer, 11 percent wine, 43 percent spirits and 1 percent other alcoholic drinks. Alcohol consumption per capita in China is lower than Western averages, and only popular in urban centres. However with the rapid urbanization, consumption is expected to increase for both domestic and imported brands (Queen in Right of Canada 2010).

Table 5 Sales of alcoholic drinks by region: Total volume 2004 to 2009
(Euromonitor International 2010)

Regions	2004	2005	2006	2007	2008	2009
Northern & NE China	9,504.1	10,287.5	11,559.5	12,836.6	13,611.4	14,479.4
Eastern China	9,103.4	10,016.1	11,256.1	12,541.6	13,307.2	14,152.9
Central China	5,336.5	5,859.9	6,557.5	7,295.9	7,637.9	8,017.8
Southern China	4,645.6	5,098.6	5,733.2	6,419.6	6,772.7	7,163.4
South western China	2,662.3	2,833.2	3,076.9	3,340.1	3,475.0	3,624.8
North western China	1,853.3	1,985.0	2,196.1	2,381.4	2,466.7	2,562.5
TOTAL	33,105.2	36,080.3	40,379.3	44,815.1	47,270.8	50,000.6

Chinese spirit Baijiu accounted for one-third of all liquor consumed in 2012, with 38 percent of the world share spirits consumption. Of a total down of 11 billion litres of the spirit, Baijiu sales in China comprise of 35 percent directly by the government (International Wine & Spirit Research 2012).

A key means of distribution for high end alcohol drinks are specialty retailers across China. These shops are characterised as independently owned stores carrying a broad range of medium scale to high end alcohol drinks, with well trained staff across the brands. Supermarkets compete with these specialty shops, using packaging in Polyethylene Terephthalate (PET) bottles and cooler packs with twist off plastic bottle caps. Supermarkets are also very accessible and have ample parking space. Small grocery stores placed closer to neighbourhoods, have the highest alcohol drinks revenues.

The composition of off trade sales of alcoholic drinks in China are Small grocery retailers 48.8 percent, Independent small grocers 39.6 percent, Supermarkets and hypermarts 38.7 percent, Food tobacco specialist 10 percent, Convenience stores 9.2 percent and other grocery retailers, Food drink tobacco specialists 10 percent, Convenience stores 9.2 percent and other retailers 2.5 percent (Euromonitor 2010).

During hard economic times of 2008 and 2009, liquor drink sales volume fell alongside the cut back on entertainment expenditures. Nonetheless off-trade revenues of spirits grew to US$23.2b in 2009 from USD21.7b in the earlier year. Trade revenues for alcohol drinks account for fast food stores, service restaurants, street stalls, kiosks, cafes and bars, and take out counters and home delivery. Distribution channels for off-trade sales are conducted through distribution channels of small grocery retailers, supermarkets, convenience stores, hypermarkets, independent small grocers & tobacco-drink specialists.

Table 6 Trade sales of spirits in China by subsector in M lts (Euromonitor International)

	2004	2005	2006	2007	2008	2009
Whiskey	7.6	13.2	16.9	20.4	21.2	22.6
Single Malt Scotch Whiskey	0.1	0.2	0.2	0.3	0.3	0.4
Blended Scotch Whiskey	6.3	11.6	14.9	18.0	18.4	19.5
Bourbon/Other US Whiskey	0.8	1.0	1.3	1.6	2.0	2.3
Canadian Whiskey	0.4	0.5	0.5	0.5	0.5	0.5
Brandy and Cognac	38.2	41.3	44.2	46.9	49.8	52.4
Brand	31.4	32.5	33.5	34.5	35.5	36.5
Cognac	6.8	8.8	10.7	12.4	14.3	15.9
White Spirits	1.6	2.1	2.8	2.6	2.5	2.6
Gin	0.3	0.3	0.4	0.4	0.5	0.5
Vodka	1.3	1.8	2.4	2.1	2.0	2.0
Rum	0.2	0.2	0.2	0.5	0.6	0.7
Tequila & Mezcal	0.1	0.1	0.1	0.2	0.2	0.2
Liqueurs	0.6	0.7	0.8	0.8	0.9	0.9
Other Spirits	3,575.6	3,569.2	3,551.4	3,649.3	3,769.6	3,894.2
Chinese Herbal Spirits	43.0	54.5	66.8	79.5	92.4	103.0
Economy Local Spirits	1,704.2	1,641.1	1,565.4	1,584.1	1,612.9	1,636.6
Lower Mid-Range Local Spirits	1,101.6	1,115.6	1,126.2	1,152.5	1,186.7	1,227.0
Premium Local Spirits	167.0	178.0	191.0	206.2	222.0	238.7
Upper Mid-Range Local Spirit	559.7	580.0	601.9	627.0	655.6	689.0
Spirits	3,623.9	3,626.9	3,616.3	3,720.6	3,844.8	3,973.6

Of all Chinese spirits the favourite drink is baijiu which occupies 98 percent of the overall spirits consumption. Whiskey sales contributed to 6 percent of revenue of spirits, brandy and cognac make up 9 percent. The remaining 9 percent of revenues are attributed to vodka, gin, rum, tequila, and liqueurs. As such, local manufacturers are confident that baijiu brands are to continually dominate spirit sales in China since it is uniquely tailored to the Chinese culture. Table 6 states the sales of alcoholic drinks in China between 2004 and 2009 by region.

Cities of Shanghai and other metropolis have a shift in consumption toward Latin-inspired tequila-based drinks. Vodka is randomly used in flavours such as citrus, peach, cherry and apple, to complete 39 percent of vodka volume sales in 2009. Baijiu the local drink a permanent preference over vodka, alternatives away local tastes are more likely place in whiskey or cognac. Other imported brands such as Bacardi, Absolute and Chivas are fancied by the young. In similar manner a switch to healthier alcohol drinks of wine and light beer. There is an increased preference for consumption of grape-wine and low-alcohol beer, while spirits consumption is less. At the same time, the demand for premium products has increased particularly for healthier and better-tasting alcoholic drinks. In effect, the big name brands enjoy the broadening consumer base for spirits, rare cognacs, whiskies and imported scotches. For the rural interior regions of China, the cheaper domestic brands are preferred, while Chinese female drinkers have become more when compared to the earlier times.

Modernisation, urban culture, influence of the West and the expanding number of restaurants, clubs and bars across the country has contributed largely to the consumption of alcoholic drinks.

On the overall, Chinese families show conservative attitude towards alcohol consumption and alcohol is not served to those under 18, even without a standing legislation of the minimum age. It is also observed that the consumption patterns vary with huge usage of alcohol beverages in the colder region of Northern China and lesser usage in the Southern region. Metropolitan zones have reduced consumption of alcoholic beverages, alongside the health awareness of young adult age group.

For the Eastern China region, consumers are increasingly choosing light beers with lower alcohol content. Rice wine has the strongest following in Eastern China especially for traditional spirit drinking provinces of Shandong and Anhui, although it is not too popular in the young adult age group. Given which, the possibility of a reduced local consumption is forecast. The Shanghai region is known to have a more sophisticated choice and imported quality wines are being introduced to the market. Table 7 states the market share between spirits brands in China.

Table 7 Brand shares of spirits in China 2006-2009 (Euromonitor International)

	Company	2006	2007	2008	2009
Luzhou Lao Jiao Da Qu	Luzhou Lao Jiao Co Ltd	1.1	1.3	1.6	1.7
Red Star Er Guo Tou	Beijing Red Star Co Ltd	1.1	1.1	1.2	1.2
Jian Nan Chun	Sichuan Jian Nan Chun Co Ltd	1	1	1	1.2
Tuo Pai	Sichuan Tuopai Yeast Liquor Co Ltd	1.1	1	1.1	1.1
Changyu	Yantai Changyu Group Co Ltd	0.9	0.9	0.8	0.
Jiujiang Shuang Zheng	Guangdong Jiujiang Distillery Co Ltd	0.7	0.7	0.7	0.6
Jing Jiu	Jing Brand Co Ltd	0.4	0.5	0.6	0.6
Lang Jiu	Lang Jiu Group	0.3	0.4	0.6	0.6
Kweichow Moutai	Kweichow Moutai Co Ltd	0.4	0.4	0.5	0.5
Wu Liang Chun	Yibin Wuliangye Distillery Co Ltd	1.6	0.8	0.6	0.5
Others		91.5	91.8	91.3	91.1
Total		100	100	100	100

Spirits are exceptionally popular in South Western China, with even more reason with the many big local manufacturers located in the area, including Sichuan Jian Nan Chun Group, Sichuan Yibin Wuliangye Distillery, and Sichuan Tuopai Yeast Liquor. Consumers of South western China are typically finicky on the price, although the preference of more sophisticated products has increased even across international brands. Jack Daniel's, Johnnie Walker, and whiskey consumption has increased.

In Southern China, the Guangdong bankruptcies and raised unemployment levels have resulted in a decline in the consumption of alcoholic drinks. Nevertheless, beer brands indicate consistent consumption patterns and increased usage during "buy-3-get-1-free" promotions.

Table 8 Company competitors	Revenue (TTM)	Net income (TTM)	Market cap	Employees
Anhui Golden Seed Winery Company Ltd	2.38bn	603.36m	7.56bn	2546
Chongqing Brewery Company Ltd	3.30bn	162.18m	7.48bn	6082
Citic Guoan Wine Comapny Ltd	604.26m	18.04m	3.32bn	927
Guangxia (Yinchuan) Industry Company Ltd	197.94k	143.67m	4.65bn	16
Guangzhou Zhujiang Brewery Company Ltd	3.47bn	50.96m	5.51bn	5760
Hebei Hengshui Laobaigan Liquor Company Ltd	1.78bn	114.53m	3.90bn	2575
Jiugui Liquor Company Ltd	1.32bn	386.49m	5.51bn	2137
ShangHai JinFeng Wine Company Limited	997.29m	111.41m	3.21bn	925
Sichuan Swellfun Company ltd	1.32bn	271.34m	5.93bn	1349
Sichuan Tuopai Shede Wine Co Ltd	1.94bn	315.71m	5.98bn	3822
Xinjiang Yilite Industry Co Ltd	1.79bn	241.99m	4.53bn	1736
Zhejiang Gu Yue Long Shan Shaoxing Wine Co	1.45bn	191.29m	7.43bn	263

North western China drinkers have a heavier taste and consume spirits more frequently. The local Tsingtao Brewery's brand Hans takes a baggy consumption of alcoholic beverages, as it was preferred by consumers for its heavier taste.

Sharp increase in Northern and North-eastern China sales of grape wine, non-grape wine and low-alcohol beer, like brands of Tsingtao, Blue Ribbon and Carlsberg; are seen. Particularly in Beijing, interest is growing in Chinese Herbal Spirits, and Yanjing is the leading brand. Multinational companies of spirits have directed more focus on the Chinese market, especially in Beijing.

Alcohol sales have increased in Central China at a consistent pattern and preference for international brands with the introduction of Western-style bars, karaoke, and nightclubs. All the same, the market in Central China is continually dominated by local brands and consumers in the region are loyal to these brands.

METHODOLOGY

The theoretical construct underscored in this study is disequilibrium in triangulation of the Yu Framework of Industry Entry Modes measured in SWOT. Fundamentally this is a case study of the British Diego Plc takeover of China's baijiu flag bearer Swellfun Company Ltd.

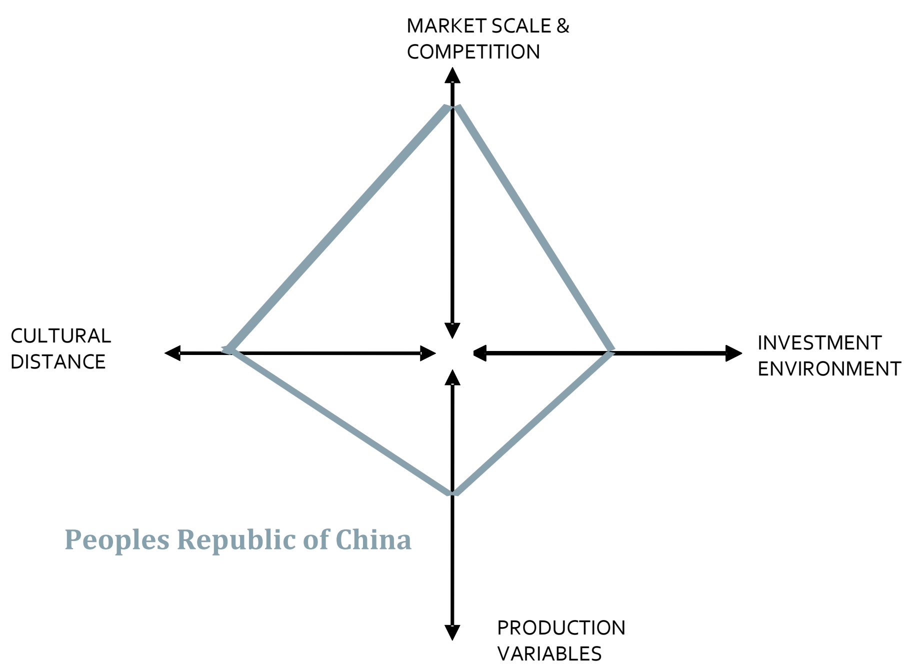
Disequilibria or disequilibrium is characterised as the loss of equilibrium that is most profoundly associated with price stability alongside demand and supply. Mercantilism is the common economic practice pursued by Western Governments since the 16th century for the accumulation of the largest possible share of wealth by way of Tariffication. Whereas cross border M&A rampantly in the spirits industry, finds the Swellfun Co Ltd caught up in the disequilibria.

Development economist John Kenneth Galbraith asserts that development must consist of a series of disequilibria. Development Economics is a segment of economics that deals with the causes and cures of the perpetuating nature of poverty. That is: A less affluent society is constantly confronted with deprivation making it rather difficult to envision for an aspiring nation.

Globalisation is disequilibria per se. Perceived as new wave colonialism where one finds these advanced nations penetrate less developed emerging economies to trade in foreign soil and advantage oneself with low cost production.

Each dimension of the Yu framework shall be evaluated in terms of the hierarchy of importance on the cross border entry mode, as perceived by the company. The degree of importance can mirror the comparative advantage.

SWOT is flexible way to recognise gaps and matches between resources and competencies. While it is broadly used across sectors using interchangeable terms, it is applied in many cases of project analysis (Lucey & McKiernan 2007). SWOT analysis facilitates a rigorous approach to researching the multiple challenges that organisations face, to establish measures and strategies in the adaptation to Globalisation, stakeholder and organisation limitations (Carlsen & Andersson 2011).



RESULTS AND FINDINGS

SWOT The Englishman's Diego Plc

Baijiu China Spirits

	STRENGTHS	WEAKNESS	OPPORTUNITY	THREATS
Variables of Production	Diego Plc has a wide portfolio of products in the beverage alcohol industry with over 180 markets across regions. The company has a full breadth of activities in brewing, producing, distilling, bottling and packaging, distributing, developing and marketing the collection of branded premium spirits, beer and wine.	Very many legal requirements to start an enterprise in China, such as obtaining an authorised business license There are another nine more government bodies with which the company must register Business documentation can vary as to location with additional local policies which can occupy about 3-12 months to set up business in China	Premium drinks comprise: Smirnoff vodka, Johnnie walker, Captain Morgan, Baileys Original Irish Cream liqueur, J&B, José Cuervo, Tanqueray, and Guinness among others under licence are Budweiser, the Irelands Carlsberg, Jamaica Heineken lager and Malaysia Tiger beer. 59 percent of total volume or 83.3 million equivalent units are attributed to the eight global priority brands, contributing a net sale of £4,283m.	Local priority brands make the most contribution to operating profit and 18 percent the sales volume of 25.6m equivalent units worth in net sales of £1,64m. Taxation and duty levies on alcoholic drinks such as alcohol white spirits made from cereal composition of 25 percent or from potatoes composition of 15 percent are charges 240 Yuan per tonne. Environmental degradation regulation with emphasis on pollution control and water resources management is required (UK trend & Investment. 2007).
Cultural Distance	Between Guanxi and Western forms of business management, there are nine identified gaps identified in business interactions and social bonds. Western business management approaches based on opportunism prophecy.	A different understanding of trust where in China it is on a person to person basis; a Westerner would view trust as on an organisation level as more credible than personal trust. Chinese business emphasise trust on a personal level in oppose the satisfaction at an organisational level to cause partnership relationships (Leung et al., 2005).	Western forms of business management are progressive or step by step in nature while the Guanxi relationship building process is very flexible and suggest different routing strategies.	Advertising which are televised cannot exceed two advertisements for alcoholic drinks on any channel between 1900hrs and 21.00hrs. In one day, no more than 10 liquor advertisements are allowed (Euromonitor 2009).

SWOT The Englishman's Diego Plc

Baijiu China Spirits

	STRENGTHS	WEAKNESS	OPPORTUNITY	THREATS
Variables of Production	Market leadership of Diageo Plc as the leading premium drinks business for a broad collection of international brands. Diageo is 17th largest publicly quoted company in the UK as in August 2007, for registered capitalization of about £26.7b. The company tops the premium spirits business by volume, by net sales and by operating profit for the management of the world top 20 spirits brands.	Expenditure for operations have been fluctuating, electricity cost represents 45.5 percent, labour cost is about15-19.2 percent, administrative cost 12.8 percent, and maintenance cost 7.4 percent. Water 5.1 percent, fuel expenditure takes up about 7.4 percent and raw materials about 5.7 percent.	Diageo plc has foothold in Asia Pacific which makes up 60 percent of spirits world consumption. A strong regional presence is established in the acquisition of Sichuan Chengdu Quanxing Group Company Ltd and in India through a joint venture with Radico Khaitan. The international spirits market is expected to grow by around 12 percent by volume, and by 15 percent in growth at the Asia region.	The rising raw material prices Barley and molasses are key raw ingredients used in alcohol production continually increase at about 13 percent cost of barley in the last two decades, has resulted the booming ethanol market and less acreage to the grain in favour of more lucrative crops. The tight domestic molasses market t increase in price from $90–94 per ton to $117–134 per ton, and similarly for other grains, glass, cardboard, energy, transportation, insurance and labour, that eat into the profit margin of the firm.
Cultural Distance	Power distance depicts varying cultural attitudes of social inequalities and recognition of moral ascendancy. Britain sits in the lower rankings sore of 35, for social inequalities ought to be minimised. China scores 80 in this dimension as an indicator that the social inequalities exist optimism in the capacity of leadership	Individualism maintains the self-interest. China scores 20 in this dimension which evidences that it is a highly collectivist culture where people act in the interests of the group. The British scored 89 for this dimension ranks amongst the highest of the individualistic, indicating the British are highly individualistic and private people.	Guanxi is often named as social capital. In contrast, networking in the West is virtually associated with corporate relations. The network mechanisms including reputation, incentive and punishment and transactional reciprocity are all applied at corporate level. Guanxi is essentially personal and not corporate relations (Luo, 1997).	Control in Western management requires rigid documentation of the understanding. In contrast the Chinese do not think contracts are as important as relationships. In which case control may not be as effective as Western companies assume and the Chinese organisation turn to deceitful tactics to deal with the Westerner (Das &Teng 2001)

SWOT The Englishman's Diego Plc

Baijiu China Spirits

	STRENGTHS	WEAKNESS	OPPORTUNITY	THREATS
Variables of Production	Number of acquisitions and disposals on a number of businesses to grow revenues and push efficiencies: At the close of 2007, Diageo invested £70m in business acquisitions and purchased 141 million shares as part of the share buyback programme. 43 percent of the equity in Sichuan Chengdu Quanxing Group Company Ltd was purchased in 2007.	Low average revenue growth rate as compared to its competitors, with company growth rate of 5 percent between 2003 and 2007: Within the same period competitors Pernod Ricard and Heineken averaged a growth rate of 16 percent and 9 percent, respectively	A growing wine market, with the US to account for 25 percent of the total world consumption: This is due to a high per capita consumption of wine by Americans, and its retail price of a bottle of wine twice more expensive the typical bottle sold in France, and three times the average in Italy. Diageo wine sales are also rising fast in Germany, Russia, Scandinavia and even Asia, for its premium brands: Beaulieu Vineyard wine, Sterling Vineyards wine, Chalone Vineyards wine, Blossom Hill wine and Piat d'Or wine.	Industry consolidation has become a phenomenon across international brewers investing for further growth, particularly in new and developing markets such as China, Latin America and Russia. Consolidation in the industry could raise the intensity of competition.
Cultural Distance	British sense of gender equality in oppose the strong male dominance of Chinese tradition	Chinese result to adaptation and interdependence to maintain the harmony, while in the Western companies adapt to other firms because of dependency or protection on the other firm. Western company that cannot maintain harmony and try to force Chinese firms to do something, the organisation would be treated as outsiders.		

CONCLUSION

Industry consolidation has become a phenomenon across international brewers investing for further growth, particularly in new and developing markets such as China, Latin America and Russia. Consolidation in the industry could raise the intensity of competition. Real deals on mergers and acquisitions can be clustered into several categories depending on the characteristics, and can involve public and private companies. M&A mode of entry may not need to complete the entire target but it is possible that the mode of entry is limited to a share of the target. Obviously, the influence of the takeover company differs depending on the acquired stake. In which case, the M&A can be described as a minority stake, parity stake, majority stake or a full acquisition of the company.

Border entry modes that necessitate a small degree of influence over the targeted company can be accomplished through the acquisition of a minority stake. It is important to note that the company control is tantamount to the veto of decisions, in extreme cases and blocking minority.

A majority stake describes an acquisition of more than 50 percent of the shares of the target, which enables the takeover company a significant influence on the target. This authority includes deciding independently on a merger with another company, especially if others do not obtain a blocking minority. Consequently, all major movements of the company have to be decided jointly in the case of a 50 percent acquisition. Payment modes vary as to the financial instruments and tax benefits each company can derive (Luck & Meckl 2002, Musshoff 2007, Wübben 2007).

The aim of this study was to examine the impact of Globalisation on the external factors influencing the selection of international market entry mode in the execution of the takeover of the Swellfun Company Ltd and taking footage on the spirits liquor industry in China.

The findings show that the choice of entry mode does not depend solely on the external factors influencing the mode of entry. A large part had strategic advantage of organisation capacity, risk appetite and leadership of Diageo Plc — taking first-mover advantage out of a merger into full acquisition and industry dominance in the Asia region

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